25X1

Directorate of Intelligence

~~Secret~~

International Economic & Energy Weekly

25X1

6 June 1986

~~Secret~~

DI IEEW 86-023
6 June 1986

Copy 834

Page Denied

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

25X1

International Economic & Energy Weekly

25X1

6 June 1986

25X1

Comments and queries regarding this publication are welcome. They may be directed to Directorate of Intelligence

25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

International Economic & Energy Weekly 25X1

Synopsis

1 **Perspective—Iran-Iraq: The Economic Balance** 25X1

Although financial constraints alone will not prevent either side from continuing the war in the short term, economic factors are playing an increasingly important role in the war between Iran and Iraq. Over the next 12 months, we believe low oil prices and the depreciation of the dollar will tip the economic and political scales in favor of Iran. 25X1

3 **Iran-Iraq: Continued Drive To Expand Oil Export Capability** 25X1

Iran and Iraq—both desperate for foreign exchange—continue to add to oil export capacity even though lower oil prices and the financial strains of war are forcing cutbacks and cancellation of other energy projects. 25X1

7 **Japan: The Strong Yen as an Election Issue** 25X1

We do not expect the strong yen—which has appreciated roughly 40 percent relative to the dollar since last September—to have a great impact overall on the ruling Liberal Democratic Party's (LDP) showing in the general elections scheduled in July. A poor showing at the polls, however, combined with a deteriorating economy could force Tokyo to reevaluate its long-held policy of fiscal austerity and to begin to reflate the economy—possibly as early as this September. 25X1

11 **The Falling Dollar Aggravates EC Budget Crisis** 25X1

A predicted European Community budget shortfall this year—equivalent to at least $2.7 billion—will throw the Community this fall into one of its periodic fiscal crises. Roughly one-half the deficit is due to the depreciation of the dollar. Greece and other beneficiaries of regional development funds may impede institutional reform in the Community if they bear the brunt of the cuts. 25X1

15 **US Dollar Decline: Uneven Impact Among LDC Exporters** 25X1

The sharp depreciation of the US dollar since early last year should boost LDC exports by reducing the price of these products in overseas markets, but the impact will vary among LDCs depending on the product mix and destination of exports, and the level of protectionism in major markets. 25X1

DI IEEW 86-023
6 June 1986

[redacted] 25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

 25X1

International Economic & Energy Weekly

25X1

6 June 1986

Perspective

Iran-Iraq: The Economic Balance

25X1

Although financial constraints alone will not prevent either side from continuing the war in the short term, economic factors are playing an increasingly important role in the war between Iran and Iraq. Over the next 12 months, we believe low oil prices and the depreciation of the dollar will tip the economic and political scales in favor of Iran:

- Arab financial support for Baghdad will probably be lower than it was last year despite Iraq's poorer economic conditions.
- Baghdad has less flexibility to raise oil output to maintain export revenues.
- Greater diversification and decentralization make the Iranian economy less vulnerable to fluctuations in the oil market.
- Tehran's greater foreign exchange assets and access to loans give it more options in dealing with lower oil prices. 25X1

The Iraqis will begin to suffer a significant decline in living standards largely because of Baghdad's crumbling financial position. Iraqi payments problems will cause banks to stop confirming Iraqi letters of credit, and some exporters will pull out of the Iraqi market altogether. As a result, Baghdad is likely to make even deeper import cuts, and reduce government wages, benefits to families of war dead, and subsidies for food and other necessities. 25X1

Political risks to the regime will increase as Iraq is forced to abandon the spending that has so far insulated Iraqis from severe hardships and shored up political support. We believe much of the dissatisfaction with the new austerity will focus on Saddam Husayn's leadership. The loss of perquisites could encourage military officers—already upset by mismanagement of the war—as well as government officials to challenge Saddam's authority. Potential dissidents, however, will be restrained by fear that a revolt could hurt Iraq's war effort and bring about an Iranian victory. 25X1

Severe Iranian economic problems in the coming months probably will not translate into sufficient opposition to force the regime to end the war. Import cuts will probably provide the knockout blow to Iran's hobbled civilian industrial sector and worsen unemployment—officially estimated at 15 percent. Lower imports and reduced domestic production will further aggravate inflation and shortages of food, medicine, and other consumer goods. Nevertheless, there is little immediate prospect for open resistance to the government, and the regime can still find enthusiastic volunteers willing to martyr themselves at the front. 25X1

If oil prices remain depressed over the next two years, however, or if Iraq greatly increases its attacks on Iran's economic infrastructure, Tehran will face tougher choices and may decide to scale down its war effort. Iran will be unable to offset Iraq's advantage in armaments, and economic problems will encourage already strong public dissatisfaction with the government's war policy. Iran's leaders might become more concerned about guaranteeing some level of long-run economic development. Nonetheless, the regime is likely to end the war only if its continuation threatens the survival of the regime. [redacted] 25X1

[redacted] 25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

Iran-Iraq: Continued Drive To Expand Oil Export Capability [redacted]

25X1

Iran and Iraq—both desperate for foreign exchange—continue to add to their oil export capacity even though lower oil prices and the financial strains of war are forcing cutbacks and cancellation of other energy projects. So far, the war has had little effect on their oil export projects, despite Iraqi air attacks and Iranian ground gains in southern Iraq. Tehran is trying to reduce dependence on Jazireh-ye Khark (Khark Island) by expanding its tanker shuttle operation to the southern Gulf, and by installing new single-point mooring buoys that would add about 2 million b/d of export capacity by this fall. Iraq has recently gained Saudi approval for the second phase of the Iraq–Saudi Arabia pipeline to the Red Sea, which, together with planned expansion of the pipeline through Turkey, could more than double Baghdad's 1.5-million-b/d oil pipeline export capacity by mid-1989. In recent months, Iraqi exports have been running about 1.4 million b/d, while Iran has boosted its exports by several hundred thousand b/d to a level of about 1.7 million b/d. Expansion of export capacity is unlikely to have an immediate impact on the near-term market, but could put downward pressure on prices as projects come on stream and world oil demand and available supplies begin to come into balance in the 1990s. [redacted]

Recent War Damage

Periodic air attacks by both sides against oil facilities and tankers have fallen well short of the systematic campaign needed to shut off crude oil exports or disrupt domestic refining operations. In recent activity, Baghdad attacked Tehran's Shahr-e Rey refinery on 7 May, shutting down the facility for several weeks. [redacted] up to 50 percent of prestrike capacity has been restored with full capacity possibly available within two months. Repeated Iraqi attacks against key oil pumping stations in southwestern Iran—including the 24 May attack on the Gorreh booster pumping station that damaged two of the three pumphouses—are reducing the redundant capacity of Iran's export system. In addition, Iraqi attacks have damaged barges being used to install new tanker loading buoys north of Khark, causing casualties and hampering construction, [redacted] 25X1
25X1

Iraq has continued harassment bombing of Khark Island and attacks against Iran's Jazireh-ye Sirri (Sirri Island) shuttle tankers, damaging several ships in recent weeks, but so far has failed to significantly affect the level of Iranian exports. Despite nearly 100 attacks on Khark since mid-1985, one-half of the 10 T-jetty and the four Sea Island berths remain in operation. Loading capacity is estimated at 4 million b/d—about one-half of prewar capacity, but well above recent export levels. [redacted] 25X1

Attacks that Tehran's press claimed Iran launched successfully in May against refining and pumping facilities near Karkuk in northern Iraq are consistent with the past pattern of Iranian retaliation for successful Iraqi attacks. We have no evidence supporting Iran's damage claims, however, and Baghdad's oil exports apparently are unaffected. 25X1
Tehran also stepped up attacks in the southern Persian Gulf against tankers en route to Saudi Arabia last month, striking farther south than previously. These actions have raised insurance rates and caused shipowners to alter the routes of partially loaded ships into shallower water, and to use daytime anchorages near UAE ports. This has slowed steaming time and further added to costs. According to US Embassy reporting, one oil company has set up a two-tanker shuttle system to minimize the risk of an Iranian attack against its 25X1
ships. [redacted] 25X1

Iran Adds Flexibility

Although Tehran continues to rely primarily on Khark Island to export oil, it has assigned a high priority to reducing dependence on Khark. [redacted]

Expansion of Sirri Shuttle Operation. To maintain exports in case Khark is shut down for a short period, Iran has gradually increased the number of storage tankers at Sirri Island from two to six, providing more than 20 million barrels of storage capacity. In addition, the shuttle fleet has increased to 15 from the original six. At least four more are either undergoing repairs or are on standby in case of additional damage to tankers. [redacted]

Export Facilities at Ganaveh. Iran is currently installing three single-point mooring buoys (SPMs) off the coast of Ganaveh, which, when completed, could add nearly 2 million b/d to export facility capacity. Weather and technical difficulties could delay their completion until early fall. The three SPMs could handle all Iranian exports at current levels if Khark were unavailable. Two additional SPMs may be installed by yearend, which we estimate would provide total capacity of about 3.25 million b/d. [redacted]

Export Facility at Tehari. Iran recently reversed an early 1986 decision to construct an additional export facility in the southern Gulf and to convert a gasline—IGATII—for oil use from Nurabad to Kangan. We believe that the project will remain on hold at least until 1987. After that, it could proceed, probably in a revised form, perhaps as a new oil pipeline along the coast to Tehari from the pump stations at Gorreh. Such a project could add 1-2 million b/d to export facility capacity. [redacted]

Gas Projects. We believe Tehran will proceed with gas injection projects at Gachsaran and Marun to sustain production at two of Iran's largest oilfields. These projects have been in the planning stages for years, and their completion could help enable Iran to raise oil export levels to more than 2 million b/d. [redacted] 25X1

Other Projects. In response to damage to the Esfahan and Tehran refineries, Tehran is planning to build a new refinery at Bandar-e 'Abbas in southern Iran. This would be a turnkey project and could be completed by 1989, ahead of a refinery being built at Arak. Payment probably would have to be made by bartering crude oil. The project would also add some impetus to plans to build an oil pipeline—sometime later—southward along the Gulf that could also be used for exports. [redacted] the possibility of exporting gas via the IGATI gas pipeline to the USSR, Turkey, Greece, and Italy. [redacted] the option of supplying oil to the Soviets through a new pipeline—using the design and right-of-way of a previously planned but unbuilt IGATII gas pipeline. Tehran probably is interested in obtaining arms in exchange for oil or gas. Agreement with the USSR on these projects is unlikely, however, because the Soviets are probably unwilling to pay a price high enough to make the projects economical. Gas agreements with Turkey, Greece, or Italy are similarly unlikely because they would require major pipeline construction and take years before such projects could be fulfilled. [redacted]

25X1 25X1 25X1 25X1 25X1 25X1

Iraq's Rebuilding of Export Capacity

Baghdad's effort to restore capacity lost early in the war has doubled its export capabilities to 1.5 million b/d, but the program is increasing Iraq's dependence on its neighbors. The success of Iraqi plans to further increase export capacity to more than 3 million b/d by 1989 will hinge on continued cooperation of the Turks and the Saudis. 25X1
[redacted] 25X1

Page Denied

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

Iraq-Turkey Pipeline. Construction began in early 1986 to expand the current 1-million-b/d capacity of the Iraq-Turkey pipeline to 1.5 million b/d. Since early in the war, only Karkuk crude [redacted] has been exported to the Mediterranean port of Ceyhan. The additional expansion will also connect the export system to one of Iraq's strategic pipelines, enabling Baghdad to export crude from the southern oilfields as well as more crude from Karkuk [redacted] Work is expected to be completed by mid-1987, but some delays are being encountered. [redacted]

[redacted]

Outlook

Iran and Iraq will both have more capability to export oil, barring more effective attacks on oil facilities. Their dependence on oil revenues and the high priority that both Tehran and Baghdad assign to oil export projects ensure they will be the last to be abandoned because of financial problems. In the near term, Iran appears to have a significant advantage and probably could increase exports to at least 2.4 million b/d within 30 days if customers could be found, and recent damage to pumpstations proves not to be critical. Iraq's export capacity is unlikely to exceed 1.5 million b/d in the next year or so unless some arrangements can be reached to allow greater use of Petroline facilities. By mid-1989, both Iraq and Iran probably will be capable of exporting 3 million b/d. [redacted]

25X1
25X1
25X1
25X1

Despite the recent increase in attacks on key oil targets other than Khark Island and the lack of significant disruption in recent years, the potential remains high for an escalation of the oil war. Progress of expansion projects—especially in Iraq—could intensify Iranian attacks on such targets such as the Az Zubayr pumpstations. Also, if Iran continues to press the war on the ground, Iraq might feel compelled to lash out more aggressively against Iranian oil export and processing targets, provoking further retaliation. Meanwhile, Iran continues to threaten retaliation against Iraq's Arab allies and could escalate the war by striking less protected oil facilities in other Persian Gulf countries, especially if it is unable to disrupt Iraqi oil flows. [redacted]

25X1

[redacted]

25X1

25X1

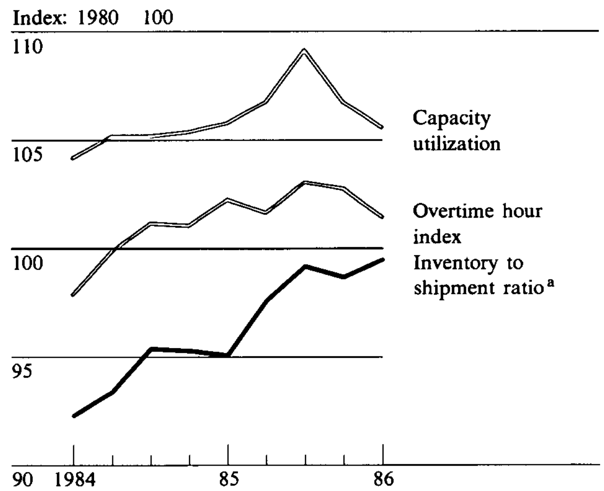
Japan: The Strong Yen as an Election Issue [redacted]

25X1

We do not expect the strong yen—which has appreciated roughly 40 percent relative to the dollar since last September—to have a great impact overall on the ruling Liberal Democratic Party's (LDP) showing in the general elections scheduled for July. The economy, while slowing, shows few signs of plunging into a sharp recession that could hurt many LDP Dietmen. Nonetheless, for some junior legislators in districts with high concentrations of now less competitive export industries, the yen appreciation could damage their reelection chances. If other factors, such as a failed campaign strategy, bring a poor showing at the polls, however, a deteriorating economy could force Tokyo to reevaluate its long-held policy of fiscal austerity and to begin to reflate the economy—possibly as early as this September. [redacted]

25X1

Japan: Selected Indicators of Manufacturing Output



[a] Increases indicate inventory buildup.

[redacted]

25X1

309327 6-86

Mixed Signals on the Economic Front

Simultaneous lower and upper house Diet elections are scheduled for 6 July. As a result, political observers in Japan are trying to assess what impact economic conditions will have on the LDP's showing. Such assessments are complicated by the uncertain near-term outlook for the economy. Neither unemployment nor the number of bankruptcies has risen substantially since the yen began its rapid ascent in September. Indeed, the number of bankruptcies has shown a downward trend for more than a year. [redacted] MITI officials admit, however, that bankruptcies are likely to increase near the end of this year. [redacted]

25X1

At the same time, there are signs that the yen's strength is causing the economy to slow:

- Industrial production in April fell from last year's level, the first such yearly drop in 38 months.
- Industrial inventories in January-March 1986 stood at a record high. The ratio of inventories to sales also registered its fourth straight quarterly gain.
- The index of overtime hours worked has declined in four of the past five months.
- The size of firms going bankrupt is increasing.

[redacted]

25X1

25X1

Impacts of a Strong Yen and Lower Oil Prices on Selected Japanese Industries

	Effects of Strong Yen	Effects of Lower Oil Prices	Overall Evaluation
Automobiles	Company profits will decrease as firms raise prices to counter yen rise.	Price of plastics—increasingly used to reduce weight—will fall, cutting costs. Lower gasoline prices may boost domestic sales of cars, but demand in oil-producing countries will decrease.	Volume of exports probably will not fall, but profits are likely to decrease.
Consumer electronics	Shortrun profits from exports of video tape recorders and audio equipment will be hurt.	Little impact on industry.	Competition will keep price hikes low; exporters will suffer from reduced profits.
Plant exports	International competitiveness will suffer.	Oil-producing countries may cancel projects.	A fall in profits is likely.
Steel	Although strong yen reduces material costs, international competitiveness may be hurt. Yen will also cut demand by domestic plant and shipbuilding industries.	Industry will not benefit because oil-producing countries probably will reduce purchases from Japan.	A drop in both direct and indirect exports will cut profits.
Gas and electric utilities	The dollar cost of raw materials will be lowered.	Material costs will be lower.	Industry will return 70 percent of $7.8 billion in windfall profits to consumer and industrial users, in the form of rate reductions. Remainder of windfall to be reinvested.
Oil refining	The cost of crude oil will be reduced.	Raw material costs will be reduced.	Oil companies will gain about $4.8 billion in windfall profits and probably will not pass lower costs on to consumers.

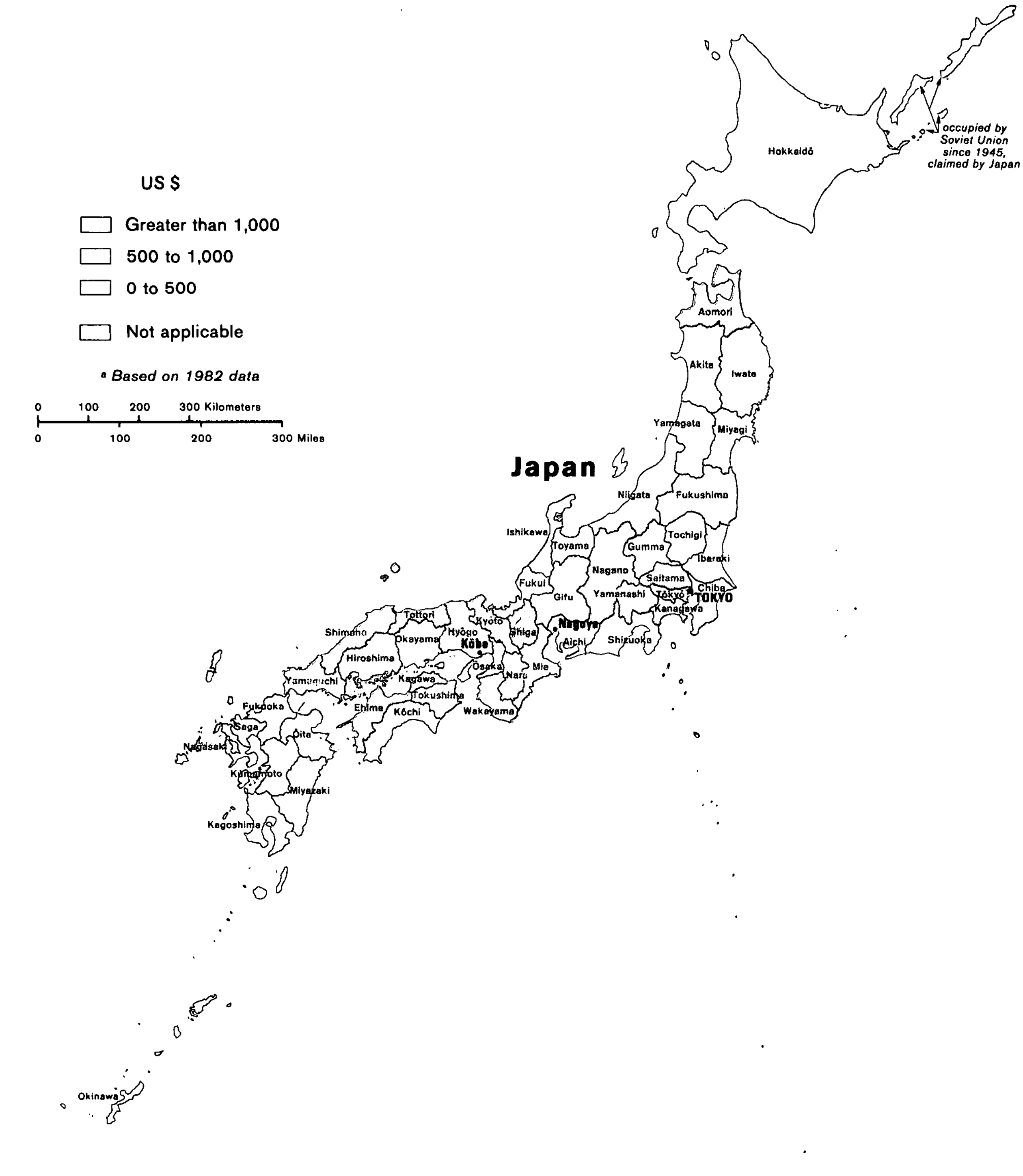
[redacted] 25X1

The mixed economic signals suggest falling oil prices have helped ease the yen's impact on growth. Although most private Japanese forecasters believe the official growth projection of 4 percent for fiscal 1986 (1 April–31 March) cannot be reached, few expect a sharp slowdown. [redacted] Our econometric model of Japan indicates that, at a yen/dollar rate of 160 and with $18 per barrel oil, real growth will reach about 3 percent in 1986, compared with the US Embassy forecast of 2 percent. [redacted] 25X1

Political Fallout: Probably Limited

Short-term economic conditions have traditionally played only a limited role in determining the results of the lower house elections, which are politically more important than the upper house races. Political specialists believe most voters still view the LDP as the party best equipped to manage the economy, regardless of the conditions prevailing at election time. Rather than being shaped by specific economic issues, the LDP's showing tends to be determined by less tangible factors, such as voter turnout, and by the party's choice of election strategies. 25X1

Per Capita Exports by Prefecture[a]



25X1

707863 (542832) 6-86

The number of candidates officially endorsed by the LDP is a case in point. According to the US Embassy, the party believes it will do poorly this year if it backs more than 320 candidates—currently more than 400 candidates are looking for LDP endorsement.

Even if short-term economic factors are, in general, not key to the elections' outcome, the loss of even a few seats could make it difficult—and perhaps impossible—for the LDP to capture a "stable majority" of 271 seats in the lower house—large enough to control all the legislative committees. Indeed, in three of the last four elections, the party has had difficulty even securing a simple majority of 256 seats. Recent political polls indicate the party may take 258 to 268 seats in the lower house election.

Districts with export-dependent industries that have been harmed by the yen appreciation are potential problems for the LDP. In particular, small and medium-sized firms—traditional LDP supporters—have been hardest hit so far. These companies—each on average with less than $500,000 in capital and fewer than 300 employees—provide three-fourths of the jobs in Japan's manufacturing sector and compose the bulk of such industries as leather, pottery, and textiles. Small business directly accounts for only 13 percent of Japan's exports. Nonetheless, many smaller firms are suppliers for the major companies that dominate Japanese overseas sales. As the larger companies have reacted to the strong yen by cutting production and forcing suppliers to cut prices, the smaller firms' sales and profits have fallen.

Implications for Fiscal Policy

In an attempt to defuse the yen as a campaign issue, the LDP has publicized a proposed $17.6 billion supplemental budget, to be tabled in the fall Diet session. The figure represents only a 6-percent boost over the budget for the current fiscal year, but it would be the largest supplemental budget ever introduced. Full implementation, however, is uncertain.

25X1

25X1

For his part, Prime Minister Nakasone has already hedged his promise to support this large supplemental budget, stating that additional fiscal measures must not endanger Japan's goal of ending most deficit financing by 1991. We doubt this is Nakasone's final word on the matter. The Prime Minister may become more tolerant of large-scale pump-priming budget measures if recent cracks in the consensus on fiscal restraint widen. Key business leaders—who in the past have been among the principal advocates of fiscal restraint—are already worried that the strong yen's toll on growth and profits will be so high that economic reflation may be necessary, even if it means future tax hikes.

25X1

25X1

Japanese commentators have long considered 3-percent growth to be the politically acceptable minimum for the LDP. The ability of Japan to maintain that rate in the face of an exchange rate in the 160 to 170 range will be the key determinant, in our view, of whether the current budget austerity drive is scuttled. Another important but less predictable factor will be the attitude of the LDP president, and hence Japanese prime minister, chosen in the fall. Nakasone's current—and, under existing LDP rules, last—term as party president ends in October and at least one of the leading contenders to replace him, Finance Minister Takeshita, is a firm advocate of fiscal austerity.

25X1

25X1

25X1

25X1

The Falling Dollar Aggravates EC Budget Crisis

25X1

25X1

A predicted European Community budget shortfall this year—equivalent to at least $2.7 billion [1]—will throw the Community this fall into one of its periodic fiscal crises. Roughly one-half of the deficit is the result of the depreciation of the dollar. The actual shortfall could be almost $1 billion greater because world agricultural prices are likely to fall as a result of the new US effort to subsidize agricultural exports. The Community can finance only $2.3 billion of the gap by boosting to the maximum the value-added tax (VAT) contributions of member states. The remainder must come from spending cuts, probably in nonagricultural areas such as regional development and research programs. As a result, the Community is likely to approach the United States to seek market-sharing arrangements for agricultural exports to minimize the impact of price drops on the budget. Internally, Greece and other beneficiaries of regional development funds may impede institutional reform in the Community if they bear the brunt of the cuts.

Factors Influencing the Crisis

Roughly one-half of the expected deficit stems from the EC Common Agricultural Policy (CAP). About $1.4 billion in extra agricultural spending is the direct result of the depreciation of the dollar relative to the ecu and an aggressive EC farm export strategy to dispose of its vast stockpiles of surplus production. EC commodities are sold on the world market in dollars, and the exchange rate assumed for the 1986 budget was about 15 percent above the current rate. As a result, the Community's export refunds have had to rise to cover the widening gap between the world price—as expressed in ecu—and the internal EC price. The rest of the shortfall comes from unfunded commitments of previous years, a larger-than-expected rebate for the United Kingdom, and faster-than-expected spending of EC funds by Spain and Portugal.

Provisions of the 1985 US Farm Bill may raise EC export refunds later this year—perhaps by another $1 billion—and put even more pressure on the budget by lowering world prices. Thus far world prices have not been a significant factor, but the Department of State estimates that lower US support prices already in effect and increased export subsidies mandated by the bill could reduce world wheat and corn prices 30 percent or more and keep them at that level until 1990. The EC Commission's plans for reducing EC agricultural stockpiles through even larger export subsidies will also put downward pressure on world commodity prices. 25X1

Options To Resolve the Crisis

A supplemental budget to deal with the fiscal gap will probably not be acted upon until some time this fall, when budgeted funds will be virtually exhausted. It will probably increase member state VAT contributions to the maximum level and cut nonagricultural spending on research, social and regional development, and job creation. The Commission also has the frequently used—though technically illegal—option of charging above-ceiling expenditures against the next year's budget, or stretching out payments over several years. Because of the enormous political power of the farm sectors in the member states, EC agricultural spending has never been cut. For example, in April EC agriculture ministers claimed to have frozen EC farm prices for the next marketing year. In practice, however, because of the recent realignment of the European Monetary System, the "freeze" in ecu terms actually means price increases of between 1.5 and 18 percent in national currency terms for all countries except West Germany and the Netherlands.

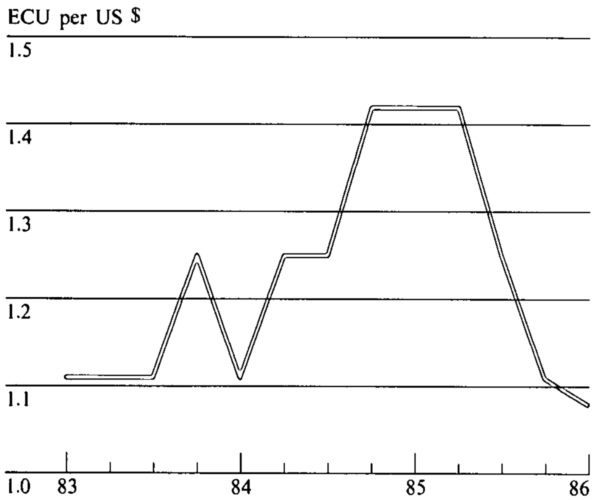
25X1

25X1

25X1

[1] The EC budget is denominated in European Currency Units (ecu). As of 29 May, US $1.00=1.05 ecu.

US Dollar: Average Value Against the ECU, 1983-86



[redacted]

309328 6-86

Another increase in the maximum share of member country VAT receipts turned over to the Community, however, is unlikely. The current 1.4-percent ceiling came into effect only last January and was described then as a medium-term solution to a budget dispute concerning the UK rebate and the need to boost revenues available to cover the increased spending associated with the addition of Spain and Portugal. Any increase in the VAT ceiling requires ratification by all member state parliaments. Britain and West Germany—the strongest advocates of fiscal restraint because of their position as net contributors to the EC budget—are firmly against raising the VAT ceiling until at least 1988. Advance budget estimates prepared by the Commission indicate that the ceiling will have to be raised to 1.6 percent in 1988 to meet the growth in spending as Spain and Portugal become integrated into the CAP. [redacted]

Implications

Persistent deficits and the need for spending restraint have made the budget the main forum for policy debate over the future of the Community. Moreover, the budget crisis will divert EC decision-makers' attention from other issues and create dissension among the member states. The Community will be forced to weigh carefully what new policies and programs it thinks it needs and can afford. It seems likely that the spending cuts on research, high technology, and industry will frustrate the EC efforts to establish a broader EC role in supporting European industrial competitiveness. An ambitious $9.5 billion research program proposed by the Commission for 1987-91 has already been shelved until at least 1988 at the suggestion of West Germany because of the lack of funds. [redacted] 25X1

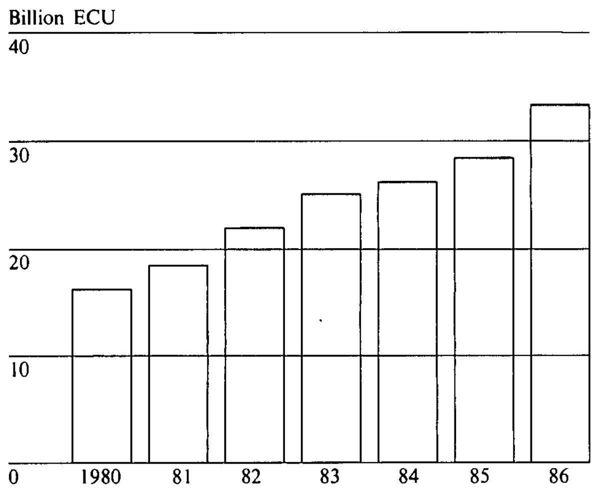
A Community embattled over budgetary priorities will find it increasingly difficult to match the new US export subsidies mandated by the Farm Bill and could feel threatened with a loss of its world market share. The Community under these circumstances is likely to seek some kind of an accommodation with the United States on the use of export subsidies and will probably try to set up market-sharing arrangements. The EC is faced with having to spend more and more on export subsidies to get rid of its surplus production in a world market of falling prices, partially caused by other exporters using subsidies. Nonetheless, this is a cheaper solution than long-term storage of these stockpiles. Agricultural Commissioner Andriessen recently proposed a surplus disposal program for butter, beef, and other products costing more than $1 billion, to be paid for only with the proceeds of the proposed tax on grain production and other savings on the Commission's commodity management practices. Serious budget pressures over the long term—especially as Spain and Portugal come under the CAP—will probably encourage incremental reforms of the CAP. Member states acquiesced in the 1984 reforms of the CAP largely because of the budget crisis of that time. [redacted]

25X1

25X1

25X1

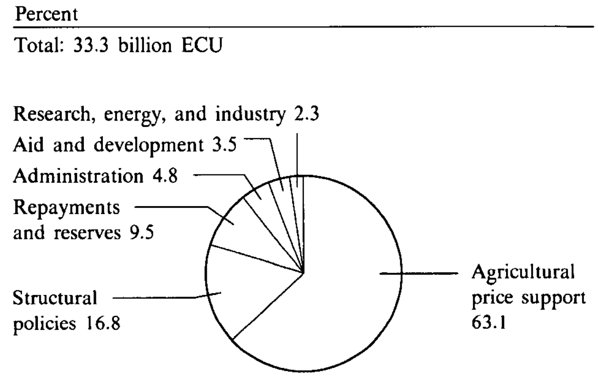
European Community: Total Spending, 1980-86



[redacted]

309329 6-86

EC: Budget Expenditures by Type, 1986



[redacted] 25X1

309330 6-86

Tensions between the richer northern countries and poorer Mediterranean countries of the Community are likely to increase because of the budget changes. CAP spending is disproportionately oriented to northern products such as wheat and milk, while the spending most likely to be cut, the social and regional funds, goes mostly to the Mediterranean countries. The southern countries are thus much more in favor of raising the VAT ceiling to provide additional revenues than the guardians of fiscal restraint in the north, the United Kingdom and West Germany. [redacted] 25X1

Cuts in regional development funds could encourage the poorer Community countries—Greece, perhaps joined by Spain, Portugal, and Italy—to withhold their cooperation in the complex task of creating a completely free internal market by 1993. Greece made its acceptance of recent institutional reforms, designed to speed progress toward the free internal market, conditional on making explicit in the Treaty of Rome that the goal of the social and regional funds is to promote the convergence of member state economies. Greece sees resource transfers from the EC as one of the primary benefits of its membership and has tenaciously fought for higher funding in the past. [redacted] 25X1

25X1

[redacted] 25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

US Dollar Decline: Uneven Impact Among LDC Exporters

25X1

The sharp depreciation of the US dollar since early last year should boost LDC exports by reducing the price of these products in overseas markets, but the impact will vary among LDCs depending on the product mix and destination of exports, and the level of protectionism in major markets. We believe that the largest foreign sales gains most likely will be realized by Asian NICs and Brazil, while the impact on less diversified LDC exporters will be much smaller.

25X1

Sharp Dollar Depreciation

Since reaching its peak in February 1985, the US dollar has sharply depreciated against most major industrial country currencies. In the past 15 months, the dollar has dropped about 35 percent against the Japanese yen. Substantial declines—ranging from 30 to 35 percent—have also been recorded against the British pound, the French franc, and the West German mark.

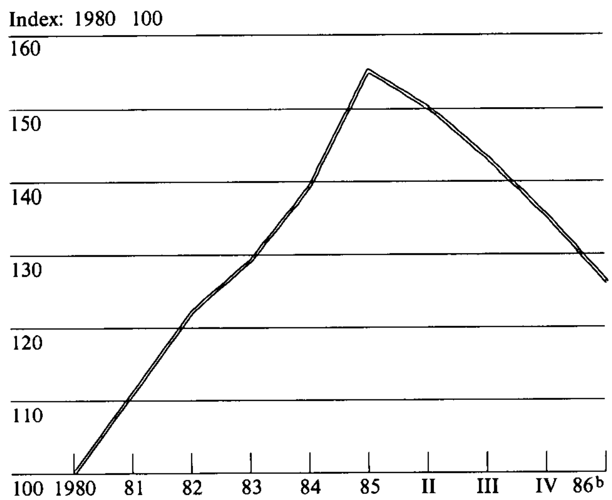
25X1

The dollar depreciation should make LDC exports more competitive in overseas markets in Japan and Europe. The impact on individual countries, however, will depend in part on the product mix and destination of exports. We believe commodity exporters are unlikely to do as well as exporters of manufactured goods:

- Most commodities are priced in US dollars, which implies that the dollar depreciation will increase demand for LDC commodity exports to Western Europe and Japan but not to the United States—the largest export market for many LDCs, especially in Latin America.

- Exporters of commodities, including oil, face oversupply conditions in many markets. Demand should rise as a result of the dollar drop, but the impact of higher demand on world prices is likely to be minor.

US Dollar Exchange Rate, 1980-86[a]



a Trade-weighted against 15 OECD currencies.

b Estimated.

25X1

25X1

309311 6-86

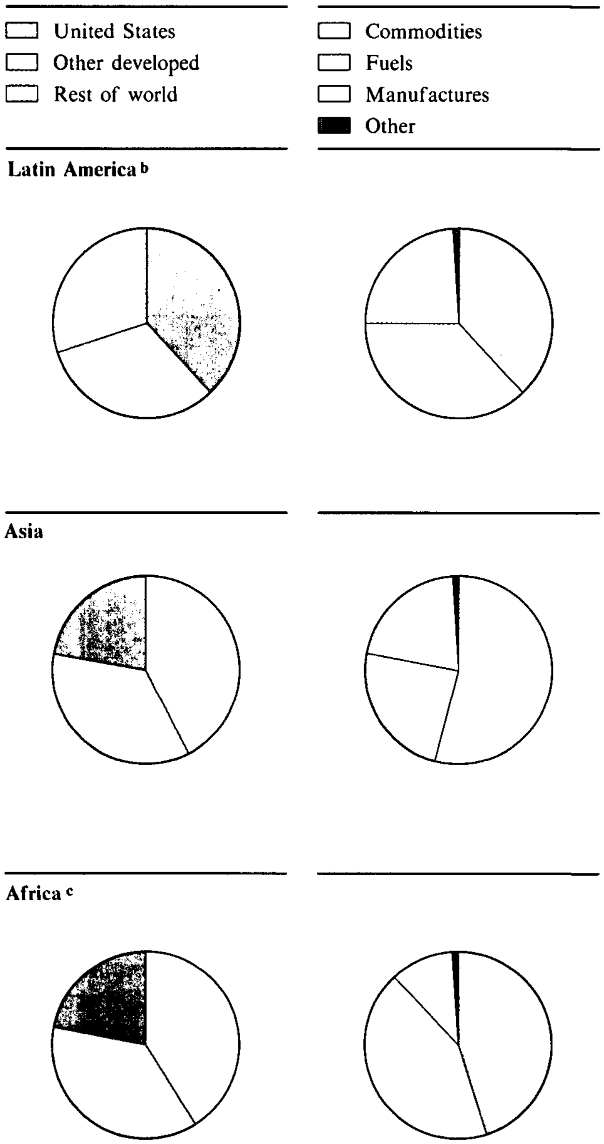
- In contrast, the decline of the dollar has increased the competitiveness of LDC manufactured goods in developed-country markets, particularly for those LDCs whose currencies are closely tied to the dollar. South Korean exports to Japan have risen sharply in the past few months, in part because of the 30-percent depreciation of the won against the yen. Similar, but smaller, gains are likely to occur in trade between LDC manufactures exporters and West European countries.

25X1

Regional Impacts

In our opinion, Asian NICs and Latin American countries such as Brazil will benefit the most from the decline of the US dollar. On the other hand, the

LDCs: Exports by Destination and Commodity Type[a]



[a] Based on partner country data for 1984.
[b] Includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, and Venezuela.
[c] Includes South Africa.

309312 6-86

impact on most African LDCs will be smaller. 25X1

Asian LDCs. In our judgment, Asian LDCs as a group are in the strongest position to gain from the dollar drop, with the greatest benefits accruing to countries with a strong manufacturing base, such as South Korea, Hong Kong, and Taiwan. Moreover, the competitive position of Asian manufactures exporters, especially in Japanese markets, has been considerably strengthened by the fact that most of their currencies are tied to the dollar. The appreciation of the yen is already costing Japan part of its overseas market share, as other East Asian exporters such as South Korea and Hong Kong displace Japanese exporters of textiles and electronics to Western Europe, 25X1

Regional commodity exporters such as the Philippines and Thailand are likely to realize fewer benefits from the dollar drop because of the continuing commodity glut and external factors, such as the negative impact of the US farm bill on Thai rice exports. Gains for Indonesia and Malaysia also will depend on conditions in the oil market. 25X1

Latin American LDCs. The impact of the dollar drop will vary among Latin American LDCs, but we believe that Brazil will derive the greatest benefit. The country dominates Latin American trade—accounting for one-third of regional exports—and is the area's only significant exporter of manufactured goods. In addition, Brazil's higher quality commodity exports—including coffee, cocoa, iron ore, soybeans, and feed—find ready overseas markets. The size of Brazil's export sector and the comparatively broad export base ensure that the country will remain competitive among Latin American exporters. 25X1

Other nations in the region have a less diversified export base; in most of these countries, commodities account for over 80 percent of export revenue. As a result, the impact of the dollar drop on export growth is likely to be smaller. Argentina's fledgling

25X1

manufacturing sector could receive a boost, although commodity exports—mainly corn, feed, and soybeans—to Western Europe and Japan face strong competition from other developing countries. Chile and Colombia could benefit from higher sales of raw materials, although gains will be modest because of continued oversupply conditions. The immediate impact of the dollar's decline on Mexico and Venezuela—which derive over 70 percent of export earnings from petroleum sales—is likely to be positive, but longer term gains will depend on the oil producers agreeing to curb output.

Sub-Saharan Africa. We believe the impact of the dollar drop will be greatest for South Africa—the dominant exporter in the region—and for the larger, more developed commodity exporters that are able to compete with other LDCs. However, a variety of factors put most other Sub-Saharan African countries in a poor position to benefit from the depreciation of the dollar:

- Sales of commodities and fuels account for all but a small share of exports, while manufacturing is woefully underdeveloped in nearly all Sub-Saharan African countries. In addition, African exporters of commodities such as copper and coffee face strong competition from other LDCs.

- Trade is heavily concentrated, with five countries—Ivory Coast, Kenya, Nigeria, Senegal, and South Africa—accounting for two-thirds of Sub-Saharan African exports. South Africa alone accounts for over 60 percent of the region's exports of manufactured goods.

- Misguided domestic policies—including overvalued exchange rates and low producer prices—discourage the development of export sectors and sharply reduce the effect of the dollar's decline on export growth.

- Slow real GNP growth in Western Europe—Sub-Saharan Africa's largest market—is likely to erode the benefits of the dollar drop.

Possible Limits to Export Gains

The extent of LDC export gains also will be influenced by the response of Western Europe and Japan to the loss of trade competitiveness resulting from the decline of the dollar. In the short run, European and Japanese markets are likely to absorb higher imports from the United States and the LDCs, with a negative impact on economic growth. Given the conservative nature of European economic policies, high unemployment, and the resulting pressures for protectionism, a continuous influx of LDC products into these countries is unlikely. Moreover, Japan probably will increase imports from the United States, rather than from LDCs, as a means of reducing the high bilateral trade surplus. The Nakasone government already is under strong domestic pressure to stem the appreciation of the yen as export markets contract. Therefore, the potential for export gains could be limited, despite the increasing competitiveness of LDC products in industrial-country markets.

25X1

25X1

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

Nicaragua: The Shrinking Private Sector [redacted] 25X1

A new wave of government economic and political pressures is choking Nicaragua's private sector, moving the Sandinistas a step closer to their goal of taking full state control of the economy. Increasing confiscations and new licensing, credit, price, and market restrictions are forcing a growing number of farmers, industrialists, merchants, and professionals out of business. At the same time, Sandinista intimidation of private-sector associations is causing some business and professional leaders to give up active opposition to regime policies. While all indicators point to the ultimate demise of the private sector, we believe the Sandinistas—supported by the Soviet Bloc—will continue to move slowly, masking their intentions through continued lipservice to a "mixed economy." A quicker purge would risk an even faster loss of Western political and economic support, and a more rapid flight of still important technical and managerial skills. [redacted]

Creating a Socialist State

While the Sandinistas still publicly claim that the private sector will always have a role, [redacted] this is only a tactical accommodation until full centralization of the economy can be established. This goal was first identified shortly after the 1979 revolution [redacted] set government policy as the "elimination of the traitorous bourgeoisie . . . once the private sector ceases to be of value." [redacted] their long-range strategy continues to call for the eventual disappearance of private enterprise and complete state domination of the economy, [redacted] the Sandinistas tolerate private business because it allows them to project a moderate international image, and because the Sandinistas still need private technicians and managers to prevent an even steeper decline in economic activity. [redacted]

25X1 25X1 25X1 25X1 25X1 25X1 25X1 25X1 25X1 25X1

To date, the Sandinistas have made substantial progress toward state control. We estimate the private sector now accounts for just 40 percent of economic output, compared with 90 percent before 1979. The actual centralization of the economy is much greater because the Sandinistas have also enacted a wide variety of indirect controls, which, in many cases, mandate virtually all private-sector economic decisions. [redacted] 25X1

Dismal Economic Situation

Nicaragua's economy is in shambles. Real GDP has fallen steadily and is now one-fourth below prerevolution levels, while per capita GDP has fallen by nearly half. Inflation is skyrocketing and will likely hit 400 percent this year. The steady decline in exports has produced unprecedented balance-of-payments deficits, and red ink in the current account will likely reach nearly $1 billion this year. Foreign exchange shortages are squeezing imports, despite increasing Soviet Bloc aid, and the Sandinistas are largely ignoring service on their $6 billion foreign debt. [redacted] 25X1

The May 1985 US embargo is further hurting Managua's economy by undercutting the productivity of its US-origin capital stock by denying Managua access to spare parts. The US Embassy reports growing public distress over widespread food shortages, deteriorating transportation, and declining public services as the consumer is caught between the vise of declining production and an ever-increasing allocation of resources to the war effort. [redacted] 25X1

Taking Control of Agriculture

Managua's increased pressure on the private sector has been perhaps most evident in the farm sector. The Sandinistas' first land expropriations were confined to those belonging to Somoza and his associates. In 1981, they enacted their Agrarian Reform law that extended legal expropriations to large or inefficient estates. Last January, Managua revised the Agrarian Reform Act, formalizing the existing practice of confiscation without "legal" cause. Two weeks after the revision, the Minister of Agriculture announced that the concept of private property had been "superseded" in Nicaragua, and that "exclusive property (ownership) in perpetuity, now does not exist for us in this country." [redacted]

For 1986, Managua has announced that 400,000 hectares of farmland—representing more than 10 percent of all arable land—will be taken over for redistribution to state farms, cooperatives, and peasants. These actions would bring total confiscations to about 60 percent of all arable land since the revolution. In late April alone, at least 21,000 hectares, including some highly efficient farms, were confiscated [redacted]

Stiff credit and foreign exchange controls have further undercut private landowners. The nationalized banks now provide less than 20 percent of their loans to the private sector, down from 90 percent before the revolution, according to IMF statistics [redacted] Moreover, official Nicaraguan figures show that interest rates charged the private sector are substantially higher than those for the public sector. Even then, access to shrinking credit and hard currency needed to import machinery, fertilizers, and seed is usually limited to farmers willing to support government policy [redacted]

Marketing and price controls further constrain private initiative. Farmers now must have their crop plans approved before planting, and can only sell their produce to the state at set prices, which, in many cases, are below production costs. Recent farmer protests against Sandinista agrarian policies have only led to new government threats of seizures and tighter credit for those not willing to cooperate, according to US Embassy reports. [redacted] 25X1

Squeezing Industry, Merchants, and Professionals

Managua is also continuing to intervene in and restructure what remains of its nonfarm private sector. Shortly after Somoza's fall, the Sandinistas nationalized all domestically owned banks, insurance companies, mines, forests, fisheries, and foreign commerce. They also took over most construction and transportation activities and put about one-third of all manufacturing and domestic commerce under state control through expropriations. In addition, Managua used its financial and commercial power to rein in businesses not yet nationalized by selectively denying access to credit, raw materials, foreign exchange, markets, and manpower [redacted] 25X1

During the past six months, the state has taken various initiatives to firm up its control. In the industrial area, Managua is using substantially increased financial regulations, a new agency, and expanded public enterprises to tighten its grip. New policies announced last February require practically all business transactions be paid by check, severely limiting the amount of cash that can be held. To ensure compliance, government bank auditors were given unprecedented access to business records. [redacted] the Sandinistas are setting up the Center for Small Industry (CNPI), which will have direct responsibility for licensing small industries. Politically acceptable companies will reportedly be given preferential access to raw materials, while all businesses will be subject to production quotas and price controls

25X1

25X1

25X1

25X1

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

managed by CNPI. In addition, Managua has recently announced the formation of a state-owned lubricant company that will provide products previously supplied by the foreign-owned refinery.

Merchants appear to have become a special target in recent months. Last December, the Ministry of Internal Commerce (MICOIN) announced that only retailers and wholesalers who had been operating for at least five years would have their licenses renewed. This regulation forced out of business thousands of merchants who had been in direct competition with state stores stocking Soviet Bloc goods, according to US Embassy reports. During May, the Sandinistas tightened commercial controls by replacing private perishable food wholesalers with a new state company, and by taking over the country's last independently owned supermarket chain. At the same time, the Sandinistas virtually closed shop for private merchants who had been importing $100 million worth of consumer goods annually in recent years, when the government hit them with increased import taxes of up to 14 times the previous rate.

Professionals are also feeling the squeeze. In mid-May, the Sandinista press announced new controls over health services, including price ceilings for doctors in private practice. In addition, the regime now requires new doctors to serve their internship for the state wherever required or be subject to court martial. Other reports indicate that similar controls are being placed on lawyers and other professionals.

Reining in Private-Sector Organizations

Private farm, business, and professional associations are also feeling the growing power of state political pressures. Private-sector organizations report severe staffing problems because of Sandinista harassment. Arbitrary arrests, confiscations, surveillance, and passport cancellations have caused some private-sector officials to resign from association staffs and forced others to cut private deals with the government rather than openly oppose the Sandinista regime, according to Embassy reporting. 25X1

25X1

The Sandinistas are also using state bureaucracies and party cadres to undercut the private sector. The new CNPI organization, for example, is reportedly designed to take over many of the functions of the private-sector associations. The neighborhood Sandinista Defense Committees were also recently authorized by government decree to monitor private-sector compliance with price and market regulations. 25X1

25X1

Bleak Private-Sector Prospects

We are convinced by Sandinista rhetoric and the tough new controls that Managua will continue to reduce—and ultimately eliminate—the role of the private sector in the economy. This process, however, will probably take at least the rest of this decade, as Managua slowly and with difficulty seeks to replace private-sector skills and Western financial aid. From the domestic production standpoint, agriculture and industrial training programs sponsored by the Soviet Bloc and on-the-job experience are beginning to produce more competent state economic managers, but the private sector continues to provide critical technical and managerial skills that cannot be replaced in the short term. 25X1

25X1

The longevity of the private sector will also depend on Soviet Bloc willingness to underwrite the transformation. Sandinista assurances of a private-sector role in the economy encouraged Western countries to provide $1 billion in financial support during their first three years in power. Since then, Western financing has slipped, as many countries have become disillusioned with the regime. Even so, Sandinista lipservice to its "mixed economy" has encouraged Western countries to provide over $200 million annually in recent years, and probably will bring in about $150 million in 1986. As Western 25X1 aid has fallen, the Soviet Bloc has taken up the slack, but Moscow and its allies have encouraged the Sandinistas to maintain as much Western financial support as possible. Over the longer run, we believe that Western aid will continue to decline and that Moscow will accept the increasing burden of supporting the Sandinistas. The cost of supporting the regime, compared with Soviet aid to other Third World countries, is still relatively low considering the high political benefits Moscow receives. Moreover, greater dependence on the Soviet Bloc will probably speed up the centralization of the economy. 25X1

25X1

Briefs

Energy

New Norwegian Natural Gas Sales

The Norwegian state oil and gas company, Statoil, announced this week its largest gas sales contract ever—a 27-year deal beginning in 1993 with a consortium of French, West German, Dutch, and Belgian buyers worth $60 billion at current prices. The agreement calls for peak annual deliveries of 16 billion cubic meters (bcm) from the Troll gasfield, and 4 bcm from Sleipner. Prices for the delivered gas will be set in the mid-1990s and, according to press reports, Oslo is counting on world oil prices—which directly influence the price of gas—of at least $20 a barrel for the deal to be profitable. Declining oil prices have already resulted in oil and gas revenues as a share of total government revenues dropping from 20 to about 14 percent, and the substantial tax relief necessary for private companies involved with Statoil—if granted—is likely to reduce the share below 10 percent. Oslo has indicated it will issue new tax proposals in August or September and the companies have until 15 September to fully commit to the deal. Even if oil prices rise, the quantity of gas involved represents less than one-third of the combined reserves of the two fields. The new agreement diminishes the potential for futher Soviet penetration into the West European gas market, an important policy factor in this deal. [redacted] 25X1

Egypt Resumes Oil Export Sales

The Egyptian General Petroleum Corporation (EGPC) resumed export sales in May, according to US Embassy sources. Liftings averaged only 79,000 b/d, however, compared to an export potential of 250,000 to 300,000 b/d. Egypt's export sales during the first quarter of 1986 decreased dramatically—perhaps by more than half—largely as a result of its uncompetitive pricing policy. [redacted] 25X1 EGPC sales require approval from the Egyptian Government's Petroleum Pricing Committee, whose slow-paced deliberations prevent Egypt from responding quickly to pricing changes in today's highly volatile and competitive oil market. [redacted] 25X1

Sudan Reducing Oil Exploration

Sun Oil Company, the second largest foreign oil company in Sudan, is stopping oil exploration and reducing its staff. According to the US Embassy, Sun has drilled three holes in the past year, and only one showed traces of oil. The company reportedly feels that oil prices would have to rebound to $20-22 per barrel before resuming exploration. The Embassy also reports that Chevron, the largest foreign investor in Sudan, has sharply reduced its staff and investment. Reduction of the expatriate staff may also be in response to security concerns in the country, although Sun has maintained a low profile in Sudan and enjoys fairly good relations with the government. Sun plans to drill another well sometime in 1987, probably to fulfill its concession agreement. [redacted] 25X1

Vietnam Nears Oil Production

Vietnam has recently moved one step closer to oil production. [redacted] 25X1 25X1 25X1 the previously identified single-point mooring buoy is part of a floating production, storage, and offloading system (FPSO). This buoy is now attached to a tanker that has had some equipment, possibly for oil production, mounted on deck. Although it appears that the oil production and storage facilities are nearly ready, we believe Vietnam will not begin oil production for at least the next few months. None of the equipment necessary to construct the pipeline from the Bach Ho field to the FPSO has been observed, and with the typhoon season upon them, the Vietnamese and Soviets could face delays in pipeline construction. [redacted] 25X1

International Finance

[redacted] 25X1

Debt Rescheduling Update on Iraq

Iraq is making some progress in rescheduling foreign debts to major trading partners but continues to miss payments to Western banks. Japanese firms and the West German Government have agreed separately to reschedule several payments due this year. The similar repayment terms in both agreements suggest that Iraq is bowing to pressure from Bonn and Tokyo to reschedule payments to its major creditors on similar terms. Baghdad so far has been unsuccessful in rescheduling commercial bank debts—largely overdue payments on letters of credit. [redacted] Baghdad has exhausted the good will of many Western banks and is unlikely to obtain new short-term lending from them. [redacted] 25X1 25X1

[redacted] 25X1

Ivory Coast Rescheduling Moves Forward

Ivory Coast and its commercial bank creditors late last month initialed a multiyear rescheduling of about $1 billion of the country's $2.9 billion commercial debt [redacted] 25X1 Creditors expect final signing of the accord in late July, with the deal becoming effective this September. The rescheduling is contingent upon Ivorian compliance with IMF and World Bank economic programs and on a similar Paris Club rescheduling of official debts. New Fund and Bank programs will become effective soon, but some Paris Club creditors may be reluctant to grant a comparable multiyear rescheduling, according to US Embassy reports. A multiyear accord is viewed by the Paris Club as the final stage of restoring a debt-troubled country's creditworthiness [redacted] 25X1

Romania Maneuvering on Debt

Bankers have denied Romania's request for relief from the repayments due over the next three years on the 1982 debt rescheduling agreement but agreed to reschedule the $260 million due this year, [redacted] 25X1 25X1 25X1 By requesting a multiyear rescheduling, Romania is not only probing the banks for willingness to extend debt relief but also may be admitting that its financial obligations in 1987 and 1988 will exceed its resources. The 1986 rescheduling will take several months, and banks may yet reconsider a multiyear arrangement. The Romanians also recently requested the Bank of Tokyo to lead a new loan syndication, according to the US Embassy in Bucharest. The banks probably will hold off until the rescheduling is accomplished. [redacted] 25X1

East German Borrowing Plans

East Germany will not borrow on international financial markets for the rest of 1986, according to the vice president of the East German Foreign Trade Bank, because of its success in reducing debt and the recent restructuring of its maturities. The official told the US Embassy that, although lower world oil prices were cutting oil product export receipts, East Berlin has $1.2 billion in untapped credit lines and will continue to run trade surpluses. East Germany also had reserves of at least $6.5 billion at yearend 1985, according to Bank for International Settlements statistics. [redacted] 25X1

We believe that East Berlin will boost imports of capital goods somewhat to support its 1986-90 investment goals, and that its trade surplus this year may fall somewhat from the estimated $790 million of 1985. However, East Germany is the most creditworthy country in Eastern Europe and probably will have little trouble obtaining funds when it chooses to resume borrowing. [redacted] 25X1

International Trade

EC Support for Services in Trade Round

The EC Commission, concluding that the European Community is a "superpower" in services trade, has abandoned its initial doubts and become a firm proponent of including services in the new GATT round. Commission officials believe the EC is especially strong in banking, information technology, and advertising and are encouraging producers of services to help the Commission develop its priorities for the negotiations. According to US Embassy reporting, the Community's strategy is first to ensure services are on the new round agenda, then to decide which specific services to include. The shift in the Commission's position follows growing support among individual EC members on this issue, especially France and the United Kingdom. [redacted] 25X1

New Andean Pact Trade Liberalization

The members of the Andean Pact (Bolivia, Colombia, Ecuador, Peru, and Venezuela) have agreed to liberalize trade on the basis of a new quota system. This subject had been one of the Pact's most contentious issues. Ecuador, the strongest critic, previously maintained that liberalization would only benefit Colombia, Venezuela, and Peru, but agreed to support an initiative that provides for reciprocal benefits. The new trade program requires each country to allow limited importation of 30 to 50 products that had been banned to protect domestic producers. The program will be reviewed after three years. Under the new agreement, Ecuador, for example, would permit limited imports of Venezuelan, Peruvian, and Colombian petrochemical and metallurgical products, but would benefit by exporting Ecuadorean chocolate, large kitchen appliances, fish meal, and wooden goods. Pact members have agreed that, because of Bolivia's current economic woes, its exports will not be bound by the new quota system. [redacted] 25X1

Global and Regional Developments

Tokyo Signs Philippine Aid Agreement

Tokyo recently signed the long-awaited agreement on the yen loan package, delayed since the Philippine election turmoil in February. The package reportedly includes seven of the original 11 project loans totaling $95 million and another $91 million in commodity loans, which indirectly could be used for Philippine budgetary support. [redacted] 25X1

USSR Agrees to Angolan Debt Relief

According to US Embassy reporting, Moscow apparently accepted Angola's request for debt relief and relaxation of export obligations during Angolan President dos Santos's recent visit. However, oil prices and the burden of the civil war have left Angola unable to fulfill debt repayment terms and bilateral trade agreements. The National Bank of Angola has lobbied extensively to renegotiate its foreign debt of approximately $3 billion, about half of which is owed to the USSR. Angola has attempted to arrange debt moratoriums or repayment in petroleum rather than hard currency. The moratorium by the Soviet Union—Angola's largest creditor—will ease Angola's credit difficulties, strengthen bilateral ties, and mitigate the threat of default to Luanda's Western lenders. [redacted] 25X1

UN Special Session on Africa

The UN Special Session resolution last weekend that endorsed an African five-year program for economic recovery probably has improved the climate for a continued economic dialogue between Africa and the international community. International support is crucial to the recovery program, which calls for $128 billion in financing of which $45 billion would be required from external sources. While the session agreed that increased economic support for Africa was necessary, the small number of specific commitments by individual donor countries was disappointing to many African delegates. According to press and US diplomatic reporting, Canada offered to place a 15-year moratorium on Africa's debt repayments, and Italy is considering a debt moratorium, restructuring, or rescheduling. No creditor country agreed to the debt writeoffs that the African group sought. On the basis of a wide variety of reporting, most Western donors believe that African countries should make more efficient use of available internal and external resources, while implementing economic reforms that will promote economic recovery. [redacted] 25X1

National Developments

Developed Countries

Tokyo Urged To Increase Overseas Investment

Echoing recommendations issued in April by the Maekawa commission, Japan's Industrial Structure Council—an advisory group to MITI Minister Watanabe—recently submitted a report urging Tokyo to promote increased overseas investment to ease trade frictions stemming from Japan's persistent trade surpluses. The panel proposed improving information flows and enacting tax incentives to stimulate such activity. Although press reports indicate that MITI plans to formulate new policies for the fiscal year beginning next April based on this report, it must first overcome opposition from several quarters. The powerful Finance Ministry will probably oppose large amounts of spending to stimulate overseas investment. The council's prediction that expanded investment abroad may cost over 500,000 jobs in Japan by the end of the century is likely to further complicate MITI efforts. 25X1

25X6

Japan's Key Technology Center Funds Projects

Japan's new Key Technology Research Center—the joint MITI and Ministry of Posts and Telecommunications (MPT) program to fund industrial R&D—recently announced a series of projects it will sponsor. The center will provide a large chunk of equity funding to a newly formed 13-firm R&D company to develop optoelectronic integrated circuits. This program replaced the MITI-sponsored program that ended in 1986. The center will hold a 70-percent equity position in a joint space laboratory being formed by six Japanese electronics companies. It will also fund and operate four cooperative research labs specializing in advanced communications applications, and fund 25 long-term joint research projects with private industry in electronics, biotechnology, communications systems, and software. The center, originally designed to promote basic R&D in industrial technology, appears to have expanded its scope to include development of technologies with near-term commercial potential. 25X1

London Blamed for Slow British Growth in 1986

Britain's National Institute of Economic and Social Research (NIESR) forecasts 1986 economic growth of only 1.9 percent—more than a full point below the Treasury's estimate—and puts the blame on government policy. The institute argues that fiscal policy is too restrictive and that London's deliberate effort to keep interest rates high to protect sterling is damaging investment. While interest rates have dropped substantially since the sterling crisis of January 1985, they remain high by international standards. The NIESR expects the high rates and the sharp drop in North Sea investment caused by low oil prices to slow overall investment growth to 0.1 percent this year. With first-quarter GDP growth estimated at an annual rate of only 2 percent, we believe the NIESR's forecast probably is more realistic than the government's. The best hope for an upturn in late 1986 comes from consumer spending, which is expected to benefit from two recent mortgage rate cuts and lower inflation. Nonetheless, overall growth will not be sufficient to put a significant dent in Britain's 13.2-percent unemployment rate. 25X1

Italian Stock Market Tumbles

The Milan stock market index plunged 20 percent last week before recovering somewhat as foreign institutions and small domestic investors sold heavily in response to rumors of a new capital gains tax. There is speculation that the government deliberately started the rumors to dampen investor enthusiasm. Several times this spring, Treasury Minister Goria cautioned that rapid gains were making the stock market unstable and that a large correction was overdue. The Milan index doubled in 1985 and nearly doubled again in the first five months of this year. The introduction of mutual funds in Italy, economic and political stability, and private investor interest in the booming market have created a huge demand on an exchange where very few companies are actively traded. 25X1

Increased Foreign Investment in Spain

Spain's campaign to attract foreign capital is continuing to bear fruit. Total foreign investment increased by almost one-third in 1985—led by a 150-percent jump in portfolio investment—and preliminary figures indicate that the trend is continuing in first quarter 1986. We believe the good results partly reflect Spain's entry into the European Community and the government's victory in the NATO referendum, which have increased investors' confidence. As an EC member, Spain also has become more attractive to US and Japanese firms looking for easier access to the lucrative European market. Finally, Spain liberalized regulations on foreign investment last year and is preparing a decree this year that will remove restrictions on most major sectors, including mining, insurance, petroleum refining, air transport, and shipping. 25X1

Norwegian Labor Government Proposes Austerity

The new minority Labor government wants to raise taxes and cut spending to compensate for falling oil prices that could lower government revenues by over 10 percent this year and turn last year's $3 billion current account surplus into a $4 billion deficit. While the opposition Conservatives agree on the need to tighten fiscal policy, the government will have to compromise to obtain passage of the measures. The Conservatives will oppose some of the new taxes and want larger spending reductions—parliament's rejection of their austerity package in April triggered the collapse of their center-right coalition. The opposition is pleased to watch the Labor Party struggle with the same economic problems. [redacted] 25X1

New Turkish Law on Privatization

Turkey last week took another important step toward implementing Prime Minister Ozal's free market policies and shrinking the state's large economic role when parliament passed a bill authorizing the sale of the state economic enterprises (SEEs) and abolishing the government's monopoly on tobacco production. [redacted] 25X1

Ozal's government already has made some moves toward privatization, including the selling of revenue shares in the Bosphorus Bridge and two hydroelectric dams. The selling of state assets is likely to proceed at a slow pace, however, because of the procedural obstacles and entrenched bureaucratic resistance. [redacted] 25X1

Less Developed Countries

Brazilian Court Rules on Software Copyright Protection

A Sao Paulo state court ruled that computer software is protected by Brazilian copyright law, according to the US Embassy. The ruling is supportive of US policies to increase the level of protection afforded to owners of intellectual property. The court's decision paves the way for US companies to prosecute Brazilian firms that have copied their computer programs—estimated to cost US firms $35 million annually, according to an industry study. In addition, it now will be more difficult for Brazilian Government agencies to implement preconditions for copyright protection under the national informatics policy. The decision also makes it more difficult for Brasilia to pass a separate software bill offering less protection. On the negative side, the court decided that copyright protection did not extend to read only memories that a US firm was seeking to protect. [redacted] 25X1

Tensions Over Brazilian Agrarian Reform

President Sarney is reacting to political challenges to his ambitious land reform program. Last week he replaced his land reform minister, who was dissatisfied with the program's slow pace, with a member of the ruling party's left wing. [redacted] a national landowners organization is 25X1
using force to intimidate reform proponents and that leftist groups are urging seizures of land by violence. While naming a leftist as the new minister may mollify critics temporarily, Sarney probably will have to accelerate the redistribution of government land to prevent leftist parties from using the issue

in congressional elections this November. Sarney fears offending sensitivities in the newly democratic climate and so may be reluctant to order the military to ensure rural peace. Nevertheless, he will step up political and police pressure on landowners and leftists to stop disrupting the program. [redacted] 25X1

Inflation Likely To Accelerate in Peru

Consumer prices rose 3.3 percent in May according to the government, marking the second consecutive month of reduced inflation—in March, prices had risen 5.3 percent. We doubt this trend will continue, however, given the expansionary bias of the economic program announced in February and the large wage increases granted to 700,000 public workers on 1 June. Some teachers received hikes in excess of 100 percent, and most other workers obtained gains of 25 to 30 percent. Many observers predict that the public-sector deficit will exceed 11 percent of GDP this year compared with 4 percent in 1985, and the government probably will have to resort to the printing presses to finance it. [redacted] 25X1

New Algerian Efforts To Cope With Lower Oil Revenues

According to the US Embassy, Algiers is reducing the number of foreign technicians and is restricting access to work and residence permits to ease the pressure on its foreign exchange position. One work permit for a longtime US resident has been rescinded and several others have been renewed for only a few months. Entire technical assistance contracts also are being canceled. As a result, the Italian expatriate community in Oran has dwindled to 700 from 2,000 only 18 months ago. Embassy sources report Algeria is also seeking concessional financing from the United States and other Western governments—almost certainly a response to difficulties in lining up commercial loans on terms acceptable to the government. These new steps, coming on top of tough austerity measures, reflect the Bendjedid government's deepening concern over deteriorating economic conditions and the need to convey to both domestic and foreign audiences that Algiers is doing what it can to head off a major financial crisis. [redacted] 25X1

[redacted] 25X1

Indonesian Cotton Import Monopoly

According to US Embassy reporting, Jakarta's recent decision to grant PT Cerat Bina Textile Indonesia (CBTI) exclusive cotton import rights is already having a detrimental impact on the beleaguered textile industry. In our view, this is symptomatic of the government's failure to respond effectively to the financial strains caused by the decline in world oil prices. In addition to reportedly forcing up the cost of raw cotton to textile mills by 25 percent, the established textile firms—which have controlling interest in CBTI—are in a position to squeeze their competition by controlling distribution of this raw material. According to the US Embassy, the move has even provoked criticism within the government. The Ministry of Research and Technology [redacted] 25X1
[redacted] for example, has condemned the decision, predicting that the CBTI monopoly will further frustrate the development of an internationally competitive textile industry. [redacted] 25X1 25X1

Hong Kong Passes New Banking Regulations

Hong Kong's Legislative Council on 28 May approved changes in the territory's banking regulations that may survive China's resumption of sovereignty over Hong Kong in 1997. Within three months, Hong Kong banks will face additional audit and disclosure requirements and a new capital adequacy test to limit risk and help assure solvency. In addition, the Banking Commissioner will have more power to veto appointments to bank boards, limit voting rights of shareholders, and halt business practices he deems unwise. Some Hong Kong economists, however, complain that the new bill does not go far enough. They favor scrapping the territory's interest rate cartel that allows the Hong Kong Association of Banks to determine deposit rates—currently set around 3 percent—which they argue shelters inefficient local banks. Some economists also advocate establishing a central bank to control the domestic money supply and instituting deposit insurance. The government, however, opted for only those changes it knew would be acceptable to a broad range of interests in the industry. [redacted] 25X1

Mexico Liquidating Parastatals

The government's recent decision to shut down the state-owned Fundidora steel complex—one of the three largest state-owned steel companies—is proving highly controversial. Fundidora's outstanding debts were $380 million and losses last year totaled $48 million. The move has had a devastating impact in Monterrey, costing some 60,000 jobs, according to the US Embassy. In reaction, there have been large demonstrations opposing the government's action. This marks the first shutdown of a major parastatal. Although the de la Madrid administration has been under pressure from international creditors to sell parastatals and to cut public spending, the closing of the steel complex probably does not portend major structural changes in the Mexican economy. Given the popular backlash against the decision as well as Mexico City's strong desire to avoid exacerbating its unemployment problems, the action is unlikely to establish a precedent for widespread closure of other parastatals.
[redacted] 25X1

Page Denied

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

Directorate of
Intelligence

Economic & Energy Indicators

6 June 1986

DI EEI 86-012
6 June 1986

This publication is prepared for the use of US Government officials, and the format, coverage, and content are designed to meet their specific requirements. US Government officials may obtain additional copies of this document directly or through liaison channels from the Central Intelligence Agency.

Requesters outside the US Government may obtain subscriptions to CIA publications similar to this one by addressing inquiries to:

Document Expediting (DOCEX) Project
Exchange and Gift Division
Library of Congress
Washington, D.C. 20540

or: **National Technical Information Service**
5285 Port Royal Road
Springfield, VA 22161

Requesters outside the US Government not interested in subscription service may purchase specific publications either in paper copy or microform from:

Photoduplication Service
Library of Congress
Washington, D.C. 20540

or: **National Technical Information Service**
5285 Port Royal Road
Springfield, VA 22161
(To expedite service call the
NTIS Order Desk (703) 487-4650

Comments and queries on this paper may be directed to the DOCEX Project at the above address or by phone (202-287-9527), or the NTIS Office of Customer Services at the above address or by phone (703-487-4660). Publications are not available to the public from the Central Intelligence Agency.

Economic & Energy Indicators

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

Industrial Production

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986			
						Jan	Feb	Mar	Apr
United States	2.6	-7.2	5.9	11.6	2.3	2.9	-9.1	-7.4	1.9
Japan	1.0	0.4	3.5	11.1	4.7	-6.7	1.0	-6.7	10.4
West Germany	-2.3	-3.2	0.3	2.4	5.0	23.4	-3.4		
France	-2.6	-1.5	1.1	2.5	0.5	0.0	9.5	0.0	
United Kingdom	-3.9	2.1	3.9	1.3	4.6	8.1	15.4	-1.1	
Italy	-1.6	-3.1	-3.2	3.3	1.2	20.7	39.3	11.5	
Canada	0.5	-10.0	5.3	8.8	4.4	-0.8	8.2		

Gross National Product [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985				1986
					Year	2d Qtr	3d Qtr	4th Qtr	1st Qtr
United States	2.5	-2.1	3.5	6.5	2.2	1.1	3.0	0.7	3.7
Japan	4.1	3.1	3.3	5.0	4.6	5.8	3.0	7.2	
West Germany	-0.2	-1.0	1.5	3.0	2.4	6.8	6.8	-0.2	
France	0.2	1.8	0.7	1.5	1.3	3.1	3.7	2.1	
United Kingdom	-1.4	1.9	3.4	2.6	3.3	6.8	-0.7	2.2	
Italy	0.2	-0.5	-0.2	2.8	2.3	5.8	1.0	2.3	
Canada	3.3	-4.4	3.3	5.0	4.5	3.2	7.0	5.4	

[a] Constant market prices.

Consumer Prices

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Mar	Apr	May
United States	10.3	6.2	3.2	4.3	3.5	1.4	-5.0	-3.3	
Japan	4.9	2.6	1.8	2.3	2.0	0.0	-6.3	0.3	-2.6
West Germany	6.0	5.3	3.3	2.4	2.2	-0.9	-2.0	-1.5	0.0
France	13.3	12.0	9.5	7.7	5.8	0.7	0.6	1.4	
United Kingdom	11.9	8.6	4.6	5.0	6.1	4.6	1.0	-1.0	
Italy	19.3	16.4	14.9	10.6	8.6	6.2	5.2	3.5	4.7
Canada	12.5	10.8	5.8	4.3	4.0	4.8	3.0	2.4	

Money Supply, M-1 [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Mar	Apr	May
United States [b]	7.1	6.6	11.2	7.0	9.1	7.9	14.8	15.5	
Japan	3.7	7.1	3.7	2.8	5.0	7.8	11.6		
West Germany	1.1	3.6	10.2	3.3	4.4	9.8	44.9	1.9	
France	12.2	13.9	10.0	7.8	8.6				
United Kingdom	NA	NA	13.0	14.7	16.7	9.0	34.8	30.5	
Italy	11.2	11.6	15.1	12.3	13.7				
Canada	3.8	0.7	10.2	3.2	4.1	–13.4	10.8	–8.4	2.4

[a] Based on amounts in national currency units.
[b] Including M1-A and M1-B.

Unemployment Rate [a]

Percent seasonally adjusted

	1981	1982	1983	1984	1985		1986			
					Year	4th Qtr	1st Qtr	Mar	Apr	May
United States	7.5	9.6	9.4	7.4	7.1	6.9	7.0	7.1	7.0	
Japan	2.2	2.4	2.7	2.7	2.6	2.8	2.6	2.7	2.9	
West Germany	5.6	7.7	9.2	9.1	9.3	9.0	10.2	9.8	9.0	
France	7.6	8.4	8.6	9.6	10.0	10.0	9.8	9.8	9.9	9.9
United Kingdom	10.0	11.6	12.4	12.4	12.9	12.9	13.1	13.2	13.2	
Italy	8.4	9.1	9.9	10.4	10.7	11.0	11.5			
Canada	7.5	11.1	11.9	11.3	10.5	10.2	9.7	9.6	9.6	

[a] Unemployment rates for France are estimated.

Foreign Trade [a]

Billion US $, f.o.b.

	1981	1982	1983	1984	1985			1986		
					Year	3d Qtr	4th Qtr	Jan	Feb	Mar
United States [b]										
Exports	233.5	212.3	200.7	217.6	213.3	52.6	52.4			
Imports	261.0	244.0	258.0	325.7	345.3	84.6	89.2	32.0	28.9	32.0
Balance	−27.5	−31.6	−57.4	−108.1	−132.0	−32.0	−36.8			
Japan										
Exports	149.6	138.2	145.4	168.1	173.9	43.6	47.3	16.3	15.9	15.7
Imports	129.5	119.6	114.0	124.1	118.0	29.2	30.3	10.4	10.4	9.3
Balance	20.1	18.6	31.4	44.0	55.9	14.4	16.9	5.9	5.5	6.4
West Germany										
Exports	175.4	176.4	169.5	171.8	184.3	48.7	51.3	18.7	18.7	17.5
Imports [c]	163.4	155.3	152.9	153.1	159.0	41.7	43.9	15.2	15.4	14.3
Balance	11.9	21.1	16.6	18.8	25.3	6.9	7.4	3.6	3.3	3.2
France										
Exports	106.3	96.4	95.1	97.5	101.9	26.2	28.8	10.2	10.3	9.9
Imports	115.6	110.5	101.0	100.3	104.5	27.0	29.2	9.7	10.3	10.2
Balance	−9.3	−14.0	−5.9	−2.8	−2.6	−0.8	−0.4	0.5	0	−0.4
United Kingdom										
Exports	102.5	97.1	92.1	93.6	100.9	25.8	27.3	9.0	8.8	8.4
Imports	94.6	93.1	93.7	99.3	103.5	26.4	27.6	8.8	9.3	10.2
Balance	7.9	4.0	−1.6	−5.7	−2.5	−0.6	−0.3	0.2	−0.5	−1.8
Italy										
Exports	75.4	73.9	72.8	73.5	78.8	20.3	22.5	7.2	8.5	7.7
Imports	91.2	86.7	80.6	84.4	90.7	21.4	26.0	8.8	9.2	8.5
Balance	−15.9	−12.8	−7.9	−10.9	−11.9	−1.1	−3.5	−1.6	−0.7	−0.8
Canada										
Exports	70.5	68.5	73.7	86.5	88.0	21.8	22.5	7.7	7.1	6.7
Imports	64.4	54.1	59.3	70.6	75.7	19.6	19.6	7.0	7.0	5.8
Balance	6.1	14.4	14.4	15.9	12.3	2.2	2.9	0.7	0.1	0.9

[a] Seasonally adjusted.
[b] Imports are customs values.
[c] Imports are c.i.f.

Current Account Balance [a]

Billion US $

	1981	1982	1983	1984	1985		1986			
					Year	4th Qtr	Jan	Feb	Mar	Apr
United States	6.3	−8.1	−46.0	−107.4	−117.7	−36.6				
Japan	4.8	6.9	20.8	35.0	49.2	16.0	1.9	3.9	6.9	7.9
West Germany	−6.8	3.3	4.3	6.7	13.8	7.4	1.9	2.9	2.1	
France	−4.7	−12.1	−4.9	−0.8	0.6	0.8				
United Kingdom	15.3	8.5	4.7	1.3	4.0	1.3	1.6	0.4	−0.9	0.6
Italy	−8.6	−5.7	0.6	−2.9						
Canada	−5.0	2.1	1.4	1.9	−1.9	−0.9				

[a] Seasonally adjusted; converted to US dollars at current market rates of exchange.

Export Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986			
						Jan	Feb	Mar	Apr
United States	9.2	1.5	1.0	1.4	−0.6	0.0	−11.4	7.9	
Japan	5.5	−6.4	−2.4	0.2	−0.6	24.2	111.0	−5.7	
West Germany	−14.9	−2.8	−3.2	−7.1	0	31.8	60.5	32.7	0.1
France	−12.0	−5.5	−4.8	−2.9	2.5				
United Kingdom	NA	NA	−6.2	−5.1	2.3	−11.3	−16.0	26.4	6.0
Italy	−7.8	−3.0	−4.4	−5.2	−0.3				
Canada	3.9	−2.0	0.2	−0.4	−3.5	−32.3	21.3	1.9	

Import Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986			
						Jan	Feb	Mar	Apr
United States	5.3	−2.0	−3.7	1.7	−2.4	−9.7	−6.8	−31.5	
Japan	3.6	−7.4	−5.0	−2.8	−4.3	16.5	46.8	−66.7	
West Germany	−8.6	−4.7	−5.2	−4.8	−1.5	−0.5	13.3	−2.6	−24.4
France	−7.8	−7.2	−7.0	−3.8	−0.3				
United Kingdom	NA	NA	−5.7	−4.5	0.5	−13.6	−2.0	26.2	−3.6
Italy	1.0	−5.3	−6.6	−3.7	−1.0				
Canada	8.7	−1.1	0.6	1.0	−2.1	4.0	6.5	−4.0	

Exchange Rate Trends

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986			
						Feb	Mar	Apr	May
Trade-Weighted									
United States	10.5	10.6	5.8	9.1	6.3	-31.8	-20.3		
Japan	9.3	-5.7	10.4	6.2	6.8	106.4	26.2		
West Germany	-2.1	7.0	5.8	1.0	1.7	9.3	4.0		
France	-5.1	-6.1	-4.7	-2.1	2.7	8.0	2.0		
United Kingdom	2.5	-2.1	-5.0	-2.5	2.0	-36.3	2.5		
Italy	-9.2	-5.1	-1.6	-3.1	-3.8	8.6	4.2		
Canada	0.3	0.2	2.3	-2.3	-3.6	-8.9	-5.6		
Dollar Cost of Foreign Currency									
Japan	2.7	-12.9	4.6	0	-0.3	61.4	33.4	22.8	47.4
West Germany	-24.6	-7.2	-5.2	-11.5	-3.3	41.0	26.1	3.7	27.7
France	-28.7	-20.8	-15.9	-14.7	-2.7	41.0	23.7	-39.1	24.2
United Kingdom	-13.2	-13.4	-13.3	-11.9	-3.0	-0.3	40.3	28.7	27.9
Italy	-32.8	-18.8	-12.3	-15.6	-8.6	40.9	26.2	- 4.7	27.0
Canada	-2.5	-2.9	0.1	-5.1	-5.4	1.1	4.1	13.1	6.5

Money Market Rates

Percent

	1981	1982	1983	1984	1985		1986		
					Year	4th Qtr	Jan	Feb	Mar
United States 90-day certificates of deposit, secondary market	16.24	12.49	9.23	10.56	8.16	7.93	7.95	NA	
Japan loans and discounts (2 months)	7.79	7.23	NA	6.66	6.52	6.48	6.46	6.42	6.27
West Germany interbank loans (3 months)	12.19	8.82	5.78	5.96	5.40	4.81	4.63	NA	
France interbank money market (3 months)	15.47	14.68	12.51	11.74	9.97	9.10	9.65	NA	
United Kingdom sterling interbank loans (3 months)	13.85	12.24	10.12	9.91	12.21	11.60	12.05	NA	
Italy Milan interbank loans (3 months)	20.13	20.15	18.16	15.91	14.95	14.52	14.79	NA	
Canada finance paper (3 months)	18.46	14.48	9.53	11.30	9.71	9.10	NA	NA	
Eurodollars 3-month deposits	16.87	13.25	9.69	10.86	8.41	8.15	8.19	NA	

Agricultural Prices

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Feb	Mar	Apr
Bananas Fresh imported, (Total world, $ per metric ton)	214.0	217.0	232.0	243.0	110.3	109.8	109.3	110.7	NA
Beef (¢ per pound)									
Australia (Boneless beef, f.o.b. US Ports)	112.4	107.4	111.1	101.0	96.6	97.6	97.7	96.6	93.5
United States (Wholesale steer beef, midwest markets)	100.0	101.4	97.6	100.9	90.7	87.8	87.0	84.2	83.4
Cocoa (¢ per pound)	89.8	74.3	92.1	106.2	98.7	95.7	95.5	91.0	84.9
Coffee ($ per pound)	1.28	1.40	1.32	1.44	1.43	2.01	1.95	2.04	1.92
Corn (US #3 yellow, c.i.f. Rotterdam, $ per metric ton)	150	123	148	150	125	116	115	113	113
Cotton (World Cotton Prices, "A" index, c.i.f. Osaka, US ¢/lb.)	72.69	74.48	85.71	63.91	57.87	53.60	54.66	54.00	49.28
Palm Oil (United Kingdom 5% bulk, c.i.f., $ per metric ton)	571	445	502	730	501	289	283	243	246
Rice ($ per metric ton)									
US (No. 2, milled, 4% c.i.f. Rotterdam)	632	481	514	514	484	453	455	455	440
Thai SWR (100% grade B c.i.f. Rotterdam)	573	362	339	310	249	236	237	232	225
Soybeans (US #2 yellow, c.i.f. Rotterdam, $ per metric ton)	288	244	282	283	225	218	217	218	213
Soybean Oil (Dutch, f.o.b. ex-mill, $ per metric ton)	507	447	527	727	571	407	395	369	356
Soybean Meal (US, c.i.f. Rotterdam $ per metric ton)	252	219	238	197	157	188	186	193	187
Sugar (World raw cane, f.o.b. Caribbean Ports, spot prices ¢ per pound)	22.52	8.42	8.53	5.18	4.04	5.83	5.55	7.07	8.36
Tea Average Auction (London) (¢ per pound)	91.0	89.9	105.2	156.6	90.0	86.4	85.7	91.5	91.3
Wheat (US #2. DNS c.i.f. Rotterdam, $ per metric ton)	210	187	183	182	169	172	175	166	172
Food Index [a] (1980=100)	88	78	86	92	81	95	93	97	98

[a] The food index is compiled by *The Economist* for 14 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

Industrial Materials Prices

	1981	1982	1983	1984	1985	1986 1st Qtr	Feb	Mar	Apr
Aluminum (¢ per pound)									
Major US producer	77.3	76.0	77.7	81.0	81.0	81.0	81.0	81.0	81.0
LME cash	57.4	44.9	65.1	56.8	47.2	51.4	50.6	53.1	52.7
Chrome Ore (South Africa chemical grade, $ per metric ton)	53.0	50.9	50.0	50.0	43.9	40.0	40.0	40.0	40.0
Copper [a] (bar, ¢ per pound)	79.0	67.1	72.0	62.4	64.5	64.5	63.8	65.6	65.0
Gold ($ per troy ounce)	460.0	375.5	424.4	360.0	317.2	342.6	338.9	345.7	339.9
Lead [a] (¢ per pound)	32.9	24.7	19.3	20.0	17.7	16.7	16.7	16.6	16.8
Manganese Ore (48% Mn, $ per long ton)	82.1	79.9	73.3	69.8	68.4	67.2	67.2	67.2	68.4
Nickel ($ per pound)									
Cathode major producer	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
LME Cash	2.7	2.2	2.1	2.2	2.2	1.8	1.8	1.9	1.8
Platinum ($ per troy ounce)									
Major producer	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0
Metals week, New York dealers' price	446.0	326.7	422.6	358.2	291.0	383.1	373.8	413.0	416.0
Rubber (¢ per pound)									
Synthetic [b]	47.5	45.7	44.0	44.4	44.1	42.8	42.8	41.6	NA
Natural [c]	56.8	45.4	56.2	49.6	42.0	41.7	42.5	42.0	39.2
Silver ($ per troy ounce)	10.5	7.9	11.4	8.1	6.1	5.9	5.9	5.7	5.2
Steel Scrap [d] ($ per long ton)	92.0	63.1	73.2	86.4	74.4	74.0	75.0	73.7	NA
Tin [a] (¢ per pound)	641.4	581.6	590.9	556.6	543.2	357.4	385.6	329.2	257.9
Tungsten Ore (contained metal, $ per metric ton)	18,097	13,426	10,177	10,243	10,656	8,673	8,745	8,309	7,752
US Steel (finished steel, composite, $ per long ton)	543.5	567.3	590.2	611.6	617.8	551.2	551.2	551.2	NA
Zinc [a] (¢ per pound)	38.4	33.7	34.7	41.5	35.4	28.5	27.6	28.4	29.8
Lumber Index [e] (1980=100)	95	84	114	105	103	100	99	114	129
Industrial Materials Index [f] (1980=100)	85	71	82	76	69	68	68	71	70

[a] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME. As of February 1986 tin prices from the Penang market.
[b] S-type styrene, US export price.
[c] Quoted on New York market.
[d] Average of No. 1 heavy melting steel scrap and No. 2 bundles delivered to consumers at Pittsburgh, Philadelphia, and Chicago.
[e] This index is compiled by using the average of 10 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.
[f] The industrial materials index is compiled by *The Economist* for 18 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

World Crude Oil Production Excluding Natural Gas Liquids

Thousand b/d

	1981	1982	1983	1984	1985 [a]			1986 [a]	
					Year	3d Qtr	4th Qtr	Jan	Feb
World	**55,837**	**53,092**	**52,633**	**53,691**	**53,356**	**52,373**	**55,015**	**53,757**	
Non-Communist countries	**41,602**	**38,810**	**38,228**	**39,257**	**38,692**	**37,588**	**40,707**	**39,471**	**40,423**
Developed countries	12,886	13,276	13,864	14,302	14,730	14,643	14,958	15,083	15,070
United States	8,572	8,658	8,680	8,735	8,933	8,954	8,933	8,942	8,934
Canada	1,285	1,270	1,356	1,411	1,457	1,444	1,476	1,480	1,480
United Kingdom	1,811	2,094	2,299	2,535	2,533	2,399	2,607	2,734	2,699
Norway	501	518	614	700	785	823	870	839	870
Other	717	736	915	921	1,022	1,023	1,072	1,088	1,087
Non-OPEC LDCs	6,036	6,633	6,823	7,515	7,845	7,922	7,888	7,678	7,393
Mexico	2,321	2,746	2,666	2,746	2,733	2,738	2,721	2,510	2,400
Egypt	598	665	689	827	874	890	856	860	600
Other	3,117	3,222	3,468	3,942	4,238	4,294	4,311	4,308	4,393
OPEC	22,680	18,901	17,541	17,440	16,117	15,023	17,861	16,710	17,960
Algeria	803	701	699	638	645	616	660	650	550
Ecuador	211	211	236	253	280	282	287	300	220
Gabon	151	154	157	152	153	153	160	160	160
Indonesia	1,604	1,324	1,385	1,466	1,235	1,203	1,286	1,200	1,300
Iran	1,381	2,282	2,492	2,187	2,258	2,335	2,301	1,700	2,200
Iraq	993	972	922	1,203	1,437	1,482	1,666	1,680	1,880
Kuwait [b]	947	663	881	912	862	800	899	1,000	1,100
Libya	1,137	1,183	1,076	1,073	1,069	933	1,234	1,100	1,000
Neutral Zone [c]	370	317	390	410	355	306	391	300	300
Nigeria	1,445	1,298	1,241	1,393	1,464	1,214	1,686	1,300	1,400
Qatar	405	328	295	399	302	312	312	400	300
Saudi Arabia [b]	9,625	6,327	4,867	4,444	3,290	2,564	4,067	4,200	4,600
UAE	1,500	1,248	1,119	1,097	1,146	1,193	1,242	1,165	1,400
Venezuela	2,108	1,893	1,781	1,813	1,621	1,630	1,670	1,555	1,550
Communist countries	**14,235**	**14,282**	**14,405**	**14,434**	**14,664**	**14,785**	**14,308**	**14,286**	
USSR	11,800	11,830	11,864	11,728	11,749	11,866	11,367	11,350	
China	2,024	2,042	2,121	2,286	2,496	2,504	2,521	2,496	
Other	411	410	420	420	419	415	420	440	

[a] Preliminary.
[b] Excluding Neutral Zone production, which is shown separately.
[c] Production is shared equally between Saudi Arabia and Kuwait.

Big Seven: Inland Oil Consumption *Thousand b/d*

	1981	1982	1983	1984	1985			1986			
					Year	3d Qtr	4th Qtr	Jan	Feb	Mar	Apr
United States [a]	16,058	15,296	15,184	15,708	15,697	15,557	15,748	15,923	16,056	16,188	15,833
Japan	4,444	4,204	4,193	4,349	4,121	3,839	4,361	4,661	5,046		
West Germany	2,120	2,024	2,009	2,012	2,060	2,233	1,993				
France	1,744	1,632	1,594	1,531	1,493	1,310	1,569	1,633	2,019	1,545	
United Kingdom	1,325	1,345	1,290	1,624	1,402	1,230	1,295	1,286	1,485		
Italy [b]	1,705	1,618	1,594	1,513	1,516	1,436	1,642	1,718	1,855	1,535	
Canada	1,617	1,454	1,354	1,348	1,344	1,362	1,400	1,359			

[a] Including bunkers, refinery fuel, and losses.
[b] Principal products only prior to 1981.

Big Seven: Crude Oil Imports *Thousand b/d*

	1981	1982	1983	1984	1985		1986			
					Year	4th Qtr	Jan	Feb	Mar	Apr
United States	4,406	3,488	3,329	3,402	3,216	3,662	3,329	2,993	3,000	3,701
Japan	3,919	3,657	3,567	3,664	3,377	3,619	3,126	4,273		
West Germany	1,591	1,451	1,307	1,335	1,284	1,210	1,321	1,225		
France	1,804	1,596	1,429	1,395	1,476	1,590	1,430	1,420		
United Kingdom	736	565	456	482	523					
Italy	1,816	1,710	1,532	1,507	1,462	1,648				
Canada	521	334	247	244	283	343				

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

Crude Oil Prices

US $ per barrel

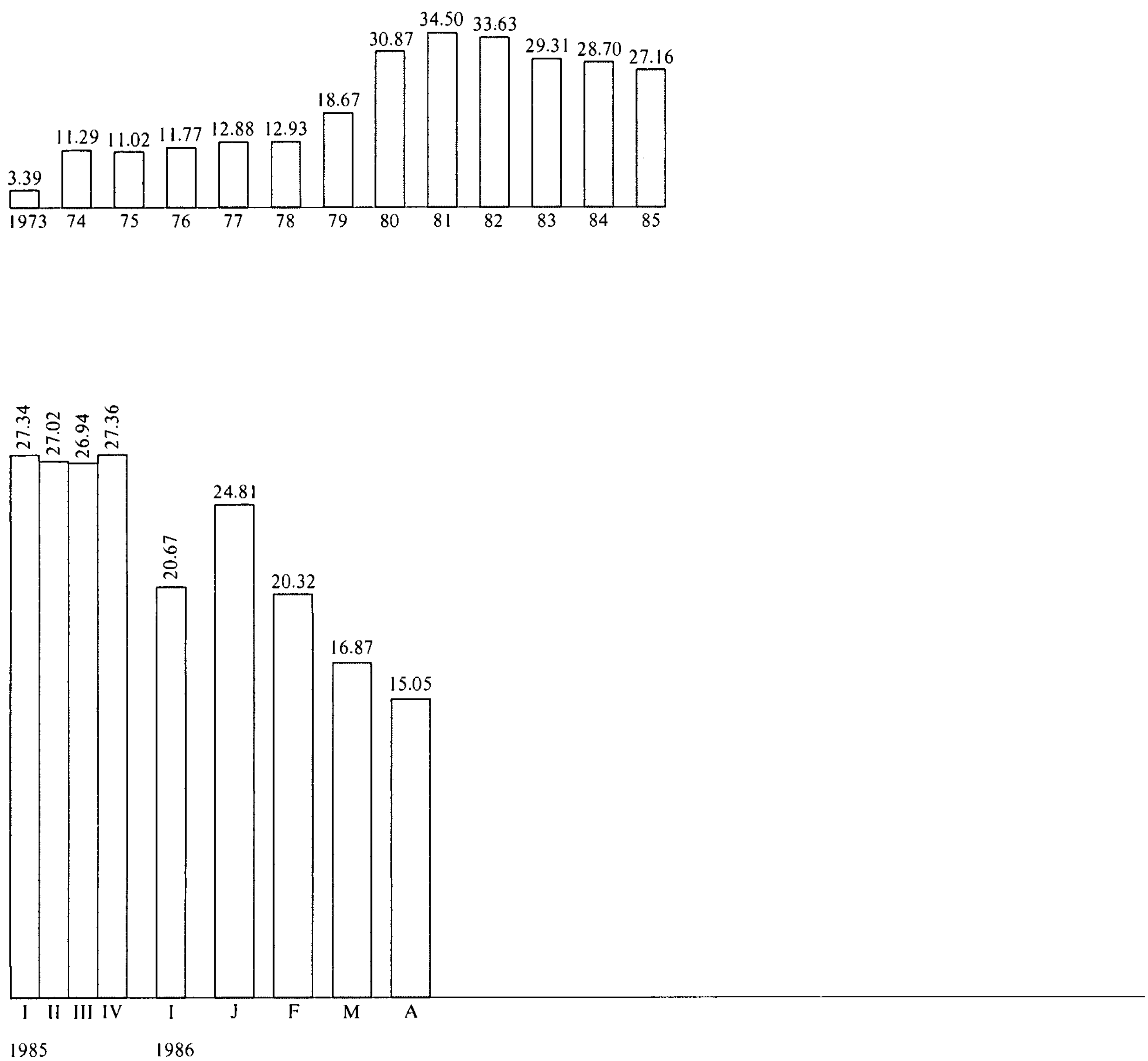
	1980	1981	1982	1983	1984	1985		1986		
						Year	4th Qtr	1st Qtr	Mar	Apr
OPEC Average [a] (Official Sales Price)	30.87	34.50	33.63	29.31	28.70	28.14	28.15	28.09	28.09	28.06
World Average Price	NA	NA	NA	NA	NA	27.16	27.36	20.67	16.87	15.05

[a] F.o.b. prices set by the government for direct sales and, in most cases, for the producing company buy-back oil. Weighted by the volume of production.

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

Average Crude Oil Sales Price[a]

US $ per barrel



[a] The 1973 price is derived from posted prices, 1974-84 prices are derived from OPEC official sales prices, and beginning in 1985, prices are a measure of average world sales prices.

STAT

308942 4-86

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4

Declassified in Part - Sanitized Copy Approved for Release 2011/12/12 : CIA-RDP88-00798R000400020004-4